



Financial Highlights
Guam Department of Education Financial Audit
Fiscal Year 2022, November 2023

The Guam Department of Education (GDOE) received unmodified (clean) opinions from independent auditors, Ernst & Young, LLP, on their fiscal year (FY) 2022 financial statements and compliance for major federal programs. This marked the 10th straight year GDOE received a clean opinion on its compliance for major federal programs. Auditors, however, identified two significant deficiencies and one material weakness in GDOE's internal control over financial reporting and compliance. Auditors also identified one material weakness and six significant deficiencies in GDOE's internal control over compliance on major federal programs. This attributed to \$2 thousand (K) in questioned costs. GDOE remains a high-risk grantee with the U.S. Department of Education (USDOE) for the past 20 years.

In FY 2022, GDOE closed with a \$21.2 million (M) increase in net position compared to the \$7M decrease in net position in FY 2021. Other notable highlights in GDOE's financial audit include:

- Total revenues increased by \$43.8M, with a corresponding increase of \$36.4M in expenditures;
- Number of locally funded employees decreased, and federally funded employees increased;
- End of the third-party fiduciary agent contract;
- Decrease of \$6.2M in FY 2022 appropriations as well as the breakdown of FY 2022 appropriations by the 14 points mandates;
- Significant deficiencies found during the single audit;
- Impact of COVID-19 on GDOE and lastly;
- Increase of \$848.8K in federal grants and programs.

Revenues Increased by \$43.8M, Expenditures Increased by \$36.4M

Total revenues increased by \$43.8M, from \$347.1M in FY 2021 to \$390.8M in FY 2022. The increase was largely due to a \$44.1M increase in federal grant funding. In FY 2022, GDOE expended \$44.5M in American Rescue Plan (ARP) funding and also received \$3M more in grants from USDOE than in FY 2021. Increases in federal grants were offset by a decrease in monies from the U.S. Department of Interior of \$870K and USDOE of \$79K. Local appropriations from the Government of Guam (GovGuam) decreased by \$1.9M. GDOE experienced revenue increases of \$792K in fees and other program receipts and \$4K in cafeteria sales.

GDOE's expenditures increased by \$36.4M, from \$346.7M in FY 2021 to \$383.1M in FY 2022. Increases were largely due to a \$16.4M increase in salaries and benefits, \$10.7M increase in supplies, \$3.2M increase in benefits, and \$4.7M increase in power.

Locally Funded Employees Decrease, Federally Funded Employees Increase

As of September 2022, the overall number of GDOE employees increased by 28, of which locally funded employees decreased by 96, federally funded employees increased by 126, and employees

funded by both local and federal funds decreased by 2. Increases in personnel costs can be attributed to the pay adjustments to the Educator Pay Plan (EDU). In May 2022, the Director of the Department of Administration recommended a 16% across-the-board increase to the EDU in order to bring GDOE educator wages in competition with national teacher wages and to address teacher recruitment difficulty. The Governor of Guam (Governor) then approved the immediate implementation of a 20% across-the-board increase to EDU pay along with an administrator differential pay of 10% and 15% for assistant principals and school principals, respectively.

The increase in federally funded employees was mainly due to the availability of COVID-19 relief funding. Education Stabilization Fund (ESF) II and ARP funds were utilized to hire limited-term, full-time educational, professional, administrative, and technical personnel to support the needs of teachers and students in addressing academic learning loss due to pandemic restrictions and providing outreach services to underrepresented families. As of September 30, 2022, there were 137 GDOE employees funded by federal pandemic relief grants.

End of Third-Party Fiduciary Agent Contract

FY 2022 marks the 10th year GDOE incurred local expenditures associated with addressing its high-risk grantee status by USDOE. USDOE's specific conditions require the Third-Party Fiduciary Agent (TPFA) to supervise the financial management functions of USDOE grants.

In May 2022, USDOE conducted an onsite visit to respond to the previous GDOE Superintendent Jon Fernandez's direct request to USDOE leadership to conduct an onsite visit to inform USDOE's determination of whether to remove the GDOE high-risk designation and requirement for a TPFA. The intent of the request was to have USDOE staff validate the status of GDOE's Reconsideration Evaluation Plan (REP) implementation to coincide with the release of the FY2022 program grant awards and the accompanying Department-wide specific conditions issued on July 1, 2022.

As a result of the significant progress the GDOE has made to strengthen internal controls and establish an effective financial management system, 18 of the 22 TPFA responsibilities were removed in the Federal Fiscal Year 2022 Specific Conditions. Additionally, USDOE required that the TPFA return the responsibility to process and issue all purchase order functions to the GDOE and be completed on GDOE's MUNIS financial system.

On January 30, 2023, the GDOE extended its contract with Alvarez & Marsal Public Section Services, LLC for TPFA services. The contract was extended to October 31, 2023, for \$110K a month, or a total of \$990K. On September 18, 2023, GDOE announced that USDOE allowed the TPFA contract to end after October 31, 2023.

\$6.2 Million Decrease in FY 2022 Appropriations

In January 2021, the Guam Education Board (GEB) approved a \$373M budget request to fund FY 2022 operations but subsequently reduced that ask to an adjusted \$291M after GDOE maximized its federal grants inventory. **Public Law (P.L.) 36-54** appropriated GDOE just \$212M which is \$79M less than the already reduced FY 2022 budget request and \$45M less than the projected baseline cost to maintain current operational services. FY 2022 GDOE appropriations totaled \$212.2M, which was a decrease of \$6.2M under the \$218.5M in FY 2021 appropriations.

The \$6.2M decrease in authorized spending included a total of \$12.4M in reduced funding offset

by a total increase of \$6.2M from the following:

- \$4.5M decreased funding for operations: \$3.7M less from the Guam Educational Facilities Fund (GEFF); \$6.9M less from the General Fund (GF) which was offset by \$6.2M in new appropriations provided for specific line items:
- \$1M for the payout of the Bonuses, Rewards, and Incentives Program to eligible teachers, school administrators, licensed healthcare professionals, and employees in critical positions under Special Education who are employed with GDOE.
- \$3.1M to fund the payout to GDOE employees who are eligible to receive merit bonuses pursuant to §6203 of Article 2, Chapter 6, Title 4 of the Guam Code Annotated.
- \$1M to fund the payout to GDOE employees for salary increments.
- \$871K to fund the adjustments to the Nurse Professional Pay Structure, approved by the Governor in June 2021. These adjustments provided a 15% base pay increase in addition to a 10% differential rate for GDOE nurses.
- \$100K to purchase menstrual hygiene products to supply schools to provide to GDOE students free of charge.
- \$100K to fund an Educator Classification, Compensation & Benefit Study to adjust classified and unclassified educator compensation and classification.
- \$245K in reduced funding for Special Revenue Funds: \$151K less from the Public School Library Resource Fund; \$93K less from the Limited Gaming Fund for capital improvement of GDOE school sports facilities;
- \$1.5M decrease for the John F. Kennedy High School (JFKHS) lease and refinancing of the Certificates of Participation Series 2010A for JFKHS; and
- \$3K reduced funding for the Okkodo High School lease payments.

Breakdown of FY 2022 Appropriations by 14 Points Mandates

In June 2005, P.L. 28-45 established the Every Child is Entitled to an Adequate Public Education Act (Adequate Education Act). The GEB utilizes the 14 points mandates of the Adequate Education Act as a basis for prioritizing the GDOE’s operational spending in the areas curriculum, safety, and facilities. The table below illustrates how GDOE prioritized its decreased FY 2022 local appropriation by the 14 points mandates.

Table 1: FY 2022 Appropriations Based on Fourteen Points

| | Mandate | Amount |
|----------|--|----------------------|
| 1 | A certified teacher for every class in a ratio established relevant collective bargaining agreements | \$100,664,102 |
| 2 | Certified Professional Administrators | \$7,868,855 |
| 3 | Certified Guidance Counselors | \$4,798,890 |
| 4 | Certified School Health Counselors | \$3,551,646 |
| 5 | Certified Allied Health Professionals | \$737,950 |
| 6 | Air Conditioned or properly ventilated classrooms in which the sensible air temperature is no greater than 78 degrees | \$118,568 |

| | Mandate | Amount |
|-----------|--|----------------------|
| 7 | Potable water sufficient to provide each student a daily ration of drinking and washing water | \$3,749,697 |
| 8 | A reliable source of electricity | \$14,380,080 |
| 9 | Proper sanitation to include flushable toilets, clean restrooms, dining areas and classrooms | \$3,065,548 |
| 10 | Adopted and required textbooks and workbooks issued to each public school student for the classes in which he or she is enrolled | \$1,500,000 |
| 11 | Libraries, which meet the standards of the American Association of School Librarians, at each school, operated by certified librarians | \$3,308,565 |
| 12 | A healthful, safe, learning environment | \$47,350,863 |
| 13 | At least 180 instructional days each school year with school years ending no later than 30 days following the end of the calendar school year | \$15,133,016 |
| 14 | Regular, timely, school bus transportation to and from school | \$238,074 |
| | Total | \$206,465,854 |

Significant Deficiencies Found in Internal Control over Financial Reporting

The independent auditors identified one material weakness (Finding 2022-002) and two significant deficiencies (Findings 2022-001 and 2022-003) relative to internal control over financial reporting.

1. Finding 2022-001 Federal Grants Fund Receivables, Revenues, Expenditures, and Accounts Payable, auditors noted the following;
 - Federal grants receivables and revenues were understated by approximately \$1.9M. An audit adjustment was proposed to correct this misstatement.
 - Ten months after fiscal year end, \$2.1M or 9% of amounts due from the TPFA remain uncollected. An audit adjustment was proposed to write off \$1.8M and has been included in the summary of uncorrected misstatements.
 - Expenditures and accounts payable related to federal awards managed by the TPFA were understated by approximately \$652K. The effect of this transaction on revenues and federal grants receivables is also included in the first bullet point above. An audit adjustment was proposed to correct the misstatement.
 - A final schedule of Federal Expenditures and Federal Awards (SEFA) was provided on October 15, 2023, over 12 months after fiscal year end to reclassify \$21.3M from ALN 84.425X to ALN 84.425A

Required adjustments to federal grants receivables may not be identified by GDOE's internal controls. Corresponding federal grant expenditures recorded by TPFA may not

be recorded in GDOE's financial statements. Federal grants receivables may include uncollectible amounts. Interfund balances arising from reimbursement-type grants may need to be reduced based on estimated uncollectible federal grants receivables.

2. Finding 2022-002 Financial Statement Close Process, auditors noted the following;
 - Liabilities related to financed purchases of schools were overstated by approximately \$8.3M based on the corresponding amortization schedules.
 - Net pension liability was overstated by approximately \$88M based on the schedule of employer allocations and schedule of pension amounts by employer for the measurement period ended September 30, 2021.
 - Amounts paid by GovGuam on behalf of GDOE amounting to approximately \$12M were not recorded in the statement of revenues, expenditures, and changes in fund balances in the General Fund and statement of net changes in the governmental activities as revenue with a corresponding expense or expenditure.

GDOE management should consider employing more personnel to monitor and review the accuracy and completeness of recorded transactions at each closing period.

3. Finding 2022-003 Loss Contingencies, Accounts payable includes \$116K of stale-dated checks aged four years or older. These checks pertain to federally funded payroll expenditures. No correcting adjustment was proposed or recorded as the amount was not considered material to the financial statements. A loss contingency exists whereby GDOE may be required to pay the grantors an amount totaling \$116K, which is the excess, unliquidated federal funding at year end.

Significant Deficiencies Found in Single Audit

The independent auditors identified one material weakness (Finding 2022-008) and six significant deficiencies (Findings 2022-004 thru 2022-007, 2022-009, 2022-010) relative to internal control over compliance on major federal programs as follows. Were it not for the assistance and guidance of the GDOE Internal Audit Office, the GDOE would have ended the year with a qualified opinion for its Consolidated Grant and over \$2M in questioned costs.

1. Finding 2022-004 Special Education – Grants to States, GDOE charged costs of \$74K to a federal award after the period of performance ended. GDOE liquidated obligations of a federal award in the amount of \$2K after the approved liquidation date. GDOE is in noncompliance with applicable period of performance requirements.
2. Finding 2022-005 Special Education – Grants to States, for 9 (or 53%) of 17 purchase orders (POs), no Byrd Anti-Lobbying certification was provided. GDOE is in noncompliance with applicable procurement and suspension and debarment requirements relative to Byrd Anti-Lobbying certifications.
3. Finding 2022-006 under Special Education – Grants for Infants and Families, GDOE charged costs of \$32K to a federal award after the period of performance ended. GDOE is in noncompliance with applicable period of performance requirements.
4. Finding 2022-007 under Special Education – Grants for Infants and Families, for 2 (or 12%) of 17 POs, no Byrd Anti-Lobbying certification was provided. GDOE is in noncompliance with applicable procurement and suspension and debarment requirements relative to Byrd Anti-Lobbying certifications.

5. Finding 2022-008 under the Consolidated Grant to the Outlying Areas – for 15 (or 60%) of 25 POs, no Byrd Anti-Lobbying certification was provided. GDOE is in noncompliance with applicable procurement and suspension and debarment requirements relative to Byrd Anti-Lobbying certifications.
6. Finding 2022-009 under ESF & ARP –\$14K in utility costs for the month of June 2022 were charged to the program. The total utility cost for June 2022 was \$1.8M. GDOE is in noncompliance with applicable activities allowed or unallowed requirements.
7. Finding 2022-010 under ESF –According to section 18008 of the Coronavirus Aid, Relief and Economic Security (CARES) Act, the State will maintain support for elementary and secondary education, and state support for higher education, at least at the levels of such support that is the average of such state’s support for elementary and secondary education and for higher education provided in fiscal years 2017, 2018, 2019.

GDOE’s Maintenance of Effort (MOE) for FY 2022 appears deficient. FY 2022 Outlying Area Actual Spending was \$920.7M, and the state must maintain a baseline percentage of 29.8% or \$274.4M; however, state support was only 26.3% or \$242M. This is a deficiency of \$32.3M. GDOE appears to be in noncompliance with the applicable matching, level of effort, and earmarking requirements relative to maintenance of effort requirements.

Deficiencies in Internal Control Identified in Management Letter

In a separate management letter, the independent auditors identified three deficiencies in GDOE’s internal control over financial reporting:

1. **School Activity Funds:** GDOE’s School Activities Funds are recorded within the MUNIS system which allows the Internal Audit Office (IAO) to access and monitor transactional activities. Issues with administering non-appropriated funds (NAF) will continue to be identified by IAO due to the inherent risk of cash-related transactions and the level of expertise required for handling of funds.
Auditors recommended that GDOE continue monitoring these accounts and continually provide education relative to the adequacy of disbursement documentation, preparation of receipts, timely bank deposits, and performance of periodic bank reconciliations.
2. **Accounts Payable:** Auditors had two comments relating to accounts payable:
 - As of September 30, 2022, accounts payable included an overstatement of \$420K for vendor #s 30255 and 30254. Reconciliations by GDOE management with vendor statements are ongoing. As this amount was not considered material to the financial statements, no audit adjustments were proposed.
 - Invoices related to bus services totaling \$1.4M (Ref #s B021-045 to 084 and B022-21 to 060) were not accrued, which included \$909K related to FY 2021. As this amount was not considered material to the financial statements, no audit adjustments were proposed.
 Auditors recommended that GDOE management establish internal control policies and procedures requiring reconciliation with significant vendors to be performed on a periodic basis. Additionally, auditors recommended invoices related to student bus services be timely recorded or accrued.
3. **Capital Assets:** Auditors had two comments relating to capital assets:

- Capital leased buildings for certain schools, warehouses, and offices were over depreciated by a total of \$1.9M. As this amount was not considered material to the financial statement, no audit adjustments were proposed.
- Capital asset depreciation expense and accumulated depreciation should reconcile with subsidiary records. A post-closing entry for \$31K was provided by GDOE management to correct this variance.

Auditors recommended that GDOE management establish internal control policies and procedures requiring depreciation expense to be recorded based on established capital asset policy.

COVID-19's Impact on GDOE

In March 2020, the Governor declared a state of emergency in response to COVID-19. As a result, schools, non-essential government agencies, and businesses closed. GDOE closed its offices to the public and required all non-essential employees to work from home. In March 2020, the U.S. President signed a major disaster declaration for Guam and ordered federal assistance to supplement local recovery efforts in connection with the COVID-19 pandemic.

By FY 2022, GDOE was in receipt of \$439M in COVID-19 relief funding:

- \$41.5M from the federal CARES Act, which established the first round of ESF funding.
- \$110.6M of a second round of ESF funding.
- \$286.9M of ARP funding.

Federal Grants and Programs Increased by \$849K

In FY 2022, there was an overall increase of \$849K in federal grants awarded to GDOE as compared to FY 2021. The increase in FY 2022 GDOE federal grant awards is due to additional grants awarded from the U.S. Department of Education, Agriculture, and supplemental awards for Head Start projects.

The \$162.9M in FY 2022 grant expenditures is inclusive of \$52.2M for salaries and benefits, \$45.3M for supplies, \$30M for contractual services, \$21.3M for utilities (includes \$2.4M transferred to the General Fund for prior year utilities), \$5.7M for equipment, \$5.7M for finance lease payments, \$25K for capital outlay, and \$354 for miscellaneous expenditures.

For a more detailed discussion on GDOE's operations, see the Management's Discussion and Analysis in the audit report, as well as the reports in their entirety, at www.opaguam.org.